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**Re: Project Discovery response**

Ian,

Thank you for your interest in the views of consumers on the Project Discovery work. It's an important piece of work and has helped focus debate on some absolutely crucial issues for the UK's energy landscape into the medium term.

Corus agrees with much of your work in the area of drivers, future scenarios and potential outcomes. We share OFGEM's perspective that there is much to be concerned about looking forward and that, whatever one thinks of the effectiveness of the legislative and regulatory frameworks currently in place, there is a significant risk that these frameworks will not be sufficiently robust in an increasingly challenging future.

Corus is one of the UK's largest energy consumers and operates in highly competitive global markets. As such, security of supply and affordable prices are very important factors in the ongoing viability of our business and in the decisions about investment that would support our future. As such they primarily inform our consideration of your document. We recognise that environmental impact and social justice are other important perspectives but believe others are more likely to focus their responses in these areas.

We are focusing our response on a number of specific policy tools proposed in the report.

- *Minimum carbon price:* There has been much comment and academic debate on the impact of price floors on the efficient working of a market, much of which highlights significant concerns. More tangibly, European industry is already at a cost disadvantage to its global competitors through the EU ETS, pending any robust global agreements. Making any floor price UK specific

further disadvantages UK companies, even within Europe. The public 'de-risking' of private investment is of course a highly contentious area, but the strength of the lobbying effort put behind this area by some energy companies is unsurprising to us given the sustained trend of broader risk transfer customers have witnessed over a number of years. We're disappointed that there has yet to be any substantive interest from developers in consortium offtake agreements, which provide alternative 'de risked' support for asset new build. Such models are in place elsewhere and may have potential in the UK. They provide benefits to both developers and offtakers without requiring a policy action.

- *Demand side response:* We agree that this is a critical element in the UK energy landscape going forward. It represents much more of a 'no lose move' than some of the other options being proposed. Harnessing the potential of aggregated residential / SME load shedding through smart meter based arrangements should be significant. However, there is more potential to be grasped in the short term from the Industrial and Commercial sector. A more flexible approach is required to realise this potential as patterns of use and load shedding reaction times differ widely across the customer group (and may be impacted by the DPCR5 review). We see untapped potential from the use of a day ahead or even 8-hour ahead load shedding product. On natural gas we are concerned that the erosion of the interruption regime is reducing demand side flexibility. More consideration is required in this area; particularly given the scenario for the growing share of gas fuelled generation and increased dependence on imported, potentially geopolitically fraught, gas supply.
- *Enhanced obligations on suppliers and system operator:* A number of the examples you raise are interesting. However we come back to the consumer experience of additional requirements on suppliers being monetarised and passed fully through to customers. This may be a feature of a consolidated and vertically integrated market. Such UK specific pass through again negatively impacts the regional and global competitiveness of UK industry.
- *Centralised renewables market:* Corus would be broadly supportive if associated costs were contained in such a market. However, we note that this would be a subsidised market and that the level of subsidy would determine the attractiveness of power on such a market vs conventional power, raising concerns over market efficiency and arbitrage opportunities.
- *Capacity markets:* Whilst we agree that there are a number of advantages of a capacity market model in concept, we have a significant concern of the effectiveness of such a model in the context of the highly consolidated, vertically integrated UK generation / supply model. The larger



end of the Industrial and Commercial supply market already experiences the negative effects of limited competition and we see a risk of a similar situation in capacity terms, particularly given constraints such as difficulty of financing.

- *Gas storage:* We see this as one of the most critical pieces of the UK's future energy needs. We're not convinced that a capacity market approach alone is sufficient to encourage enough new infrastructure for the UK to reliably and robustly ride out problems in global natural gas supply chains and attempt to level out the European playing field in this regard.
- *Centralised buyer of energy:* We assume that this package is no longer an option given recent Government announcements and the announced energy policies of other parties.

Taking the above comments into account we find that the only package we can cautiously support as a whole is D 'Capacity Tenders'. However, there seems to be a significant leap from D (Capacity Tenders) to E (Central Energy Buyer). There is an urgent need to seriously consider if more targeted, transparent strategic intervention in the market, directly or indirectly, would provide a more cost effective manner in the long term on constraining some of the major security of supply and price risks. Gas storage, either in terms of asset development or operational obligations, are particularly important examples of areas of such intervention.

We of course await with real interest your publication on the impact of the policy options on consumers.

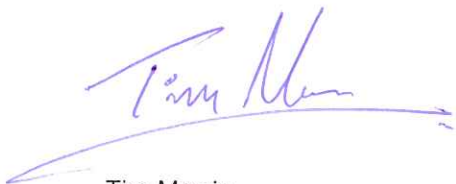
Many of the key drivers of the potential looming predicament for the UK energy landscape that you identify are in great part results of a lack of consistent strategic vision and its attendant uncertainty. Uncertainty going forward is the single largest barrier to the necessary scale and scope of investment required by the UK without a significant change to how energy policy is approached.

On a more specific level, UK energy market studies have had an unfortunate habit of falling into a policy black hole. Corus would be very disappointment if the same happened to Project Discovery, a risk magnified by the upcoming election.

I'd welcome the opportunity to pick up with your team on any of the above. Congratulations on a very thorough and considered piece of work.

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Yours sincerely

A handwritten signature in blue ink, appearing to read "Tim Morris", with a long horizontal flourish extending to the right.

Tim Morris  
Manager, UK Energy , UK Energy Supplies

***By email***